

**STATE OF CALIFORNIA  
DEPARTMENT OF INSURANCE  
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San Francisco, California 94105**

**RH05042665**

**December 8, 2005**

**FINAL STATEMENT OF REASONS AND  
UPDATED INFORMATIVE DIGEST**

**REGARDING CALIFORNIA LOW COST AUTOMOBILE INSURANCE RATES**

**INTRODUCTION AND UPDATED INFORMATIVE DIGEST**

On May 31, 2005, California Insurance Commissioner John Garamendi held a public hearing to consider the recommendation of the California Automobile Assigned Risk Plan ("CAARP") to increase premiums for the California Low Cost Automobile Insurance program by an overall 19.3 percent and to maintain a 25 percent surcharge for certain drivers. At the public hearing, CAARP submitted a revised rate recommendation, reducing its proposed increase to an overall 12.3 percent with no change to the 25 percent surcharge for certain drivers.

Insurance Commissioner Garamendi has determined, after public hearing and review of all comments, to modify CAARP's recommendation as reflected in the Commissioner's Decision and Order. The Commissioner has determined that an overall rate increase of 2.5 percent, with no change to the 25 percent surcharge for certain drivers, is adequate to meet the statutory rate-setting standards of California Insurance Code Sections 11629.72(c) and 11629.92(c).

Currently, the annual premiums for the bodily injury/property damage liability policy are \$347 per vehicle for Los Angeles County and \$314 per vehicle for the City and County of San Francisco. A 25 percent surcharge is added to the base rate for unmarried male drivers ages 19 through 24 years of age. In its revised rate recommendation, CAARP proposed to increase the base rates to \$386 for Los Angeles County and \$349 for the City and County of San Francisco, an increase of 11.2 percent. The Commissioner has determined that the appropriate indicated rate change is 2.4 percent, thereby increasing the rates to \$355 for Los Angeles County and \$322 for the City and County of San Francisco.

Annual premiums for optional uninsured motorists bodily injury coverage are currently \$64 for Los Angeles and \$39 for San Francisco counties. In its revised rate recommendation, CAARP proposed to increase the rates by 17 percent to \$75 for Los Angeles and \$46 for San Francisco counties. The Commissioner has determined that the appropriate indicated rate change is 1.0 percent, thereby increasing the rates to \$65 for Los Angeles and maintaining rates of \$39 for San Francisco counties.

The premiums for optional medical payments coverage are currently \$26 for Los Angeles County and \$24 for the City and County of San Francisco. In its revised rate recommendation, CAARP proposed to increase the rates to \$46 for Los Angeles and \$42 for San Francisco

counties, an increase of 75.3 percent. The Commissioner has determined that the appropriate indicated rate change is 10.0 percent, increasing the rates to \$29 for Los Angeles and \$26 for San Francisco counties.

To implement these determinations, the Commissioner has ordered adjustments to the premiums set forth in Section 27 of the program's Plan of Operations specifying premium and surcharge rates to reflect the above changes and maintenance of the current 25 percent surcharge.

The purpose of these regulations is to implement, interpret and make specific the provisions of California Insurance Code sections 11629.72 and 11629.92, and amended by 2002 Statutes, Chapter 742.

California Insurance Code sections 11629.72 and 11629.92 provide that, annually, CAARP shall submit a proposed rate and surcharge to the Commissioner for approval. CAARP did so, proposing a revised overall rate increase of 12.3 percent, while maintaining the 25 percent surcharge for certain drivers. Further details appear in CAARP's January 2005 recommendation and revised application on file with the Commissioner and are available for public review. The statutes specify that rates shall be sufficient to cover losses incurred under policies issued under the pilot program and expenses. In assessing loss reserves, the Commissioner shall only allow loss reserves estimated from actual losses to the pilot programs or comparable data by a licensed statistical agent, adjusted to reflect coverages provided by the pilot programs. Rates shall be set so as to result in no subsidy of the program or subsidy of policyholders in one pilot program by policyholders in the other pilot program.

California Insurance Code Sections 11629.7 through 11629.999 establish, within the California Automobile Assigned Risk Plan, low-cost automobile insurance pilot programs for the County of Los Angeles and the City and County of San Francisco. Because the low cost automobile insurance pilot programs are established and administered through CAARP, established under Sections 11620-11627 of the California Insurance Code, CAARP procedures are applied to the low cost automobile insurance pilot programs where appropriate and not inconsistent with the low cost automobile insurance statutes. Pursuant to California Insurance Code Sections 11620 and 11624, the Commissioner approves rates for those obtaining coverage through the assigned risk plan. Before amending premium rates for CAARP, the Commissioner holds a public hearing.

For the low-cost automobile insurance pilot programs, California Insurance Code Sections 11629.7 and 11629.9 require the Commissioner, after a public hearing, to approve or issue a reasonable plan for the equitable apportionment, among insurers, of eligible persons residing in the County of Los Angeles and the City and County of San Francisco. California Code of Regulations, Title 10, Chapter 5, Section 2498.6 references the plan. This plan, approved by the Commissioner, contains rules and rates.

In accordance with these rate-setting procedures and standards, the Commissioner held a public hearing on May 31, 2005 to consider CAARP's proposal for the low cost automobile insurance program. To permit comments to CAARP's revised rate recommendation, as well as responses to questions at the hearing, the public comment period was extended to June 17, 2005.

The proposed regulations are intended to implement the Commissioner's final action regarding CAARP's rate recommendation, as mandated by Insurance Code Sections 11629.72(c) and 11629.92(c), and clarify program rates.

#### STATEMENT OF SPECIFIC PURPOSE AND NECESSITY

The specific purpose of each regulation and the rationale for the Commissioner's determination that each regulation is reasonably necessary to carry out the purpose for which it is proposed is set forth below.

##### **Section 27. Premium Determination**

Subsection 1 of Section 27 C sets forth annual premiums of \$355 for insureds in Los Angeles County and \$322 for insureds in the City and County of San Francisco. These rates reflect the Commissioner's determination of a 2.4 percent increase in the liability policy, consistent with statutory rate-setting standards. This subsection also sets forth the amount of the surcharge for certain drivers, maintaining the current 25 percent rate, determined by the Commissioner to meet the requirements of the rate-setting standards. Adoption of this regulation is necessary to clearly indicate applicable premiums and surcharge for the low cost auto liability policy so that all eligible consumers, producers, and participating insurers are knowledgeable.

Subsection 2 of Section 27 C sets forth annual premiums for optional uninsured motorists bodily injury coverage. This regulation specifies premiums of \$65 for insureds in Los Angeles County and \$39 in the City and County of San Francisco. These rates reflect the Commissioner's determination of a 1.0 percent increase, consistent with statutory rate-setting standards. Adoption of this regulation is necessary to clearly indicate the additional premium for uninsured motorists bodily injury coverage so that all affected persons are knowledgeable.

Subsection 3 of Section 27 C sets forth annual premiums for optional medical payments coverage. This regulation specifies premiums of \$29 for insureds in Los Angeles County and \$26 in the City and County of San Francisco, reflecting the Commissioner's determination of a 10.0 percent increase, consistent with statutory rate-setting standards. Adoption of this regulation is necessary to clearly indicate the additional premium for medical payments coverage so that all eligible consumers, producers, and participating insurers are knowledgeable.

#### SUMMARY OF AND RESPONSE TO PUBLIC COMMENT

The Department's summary of and response to public comment is contained in the Decision and Order included in the rulemaking file and incorporated herein by reference.

#### IDENTIFICATION OF STUDIES

CAARP's original and revised rate applications rely upon the expertise of CAARP's technical staff. The Department's determination of rates relies upon the expertise of its professional staff. Other than CAARP's application and accompanying explanatory memorandum and exhibits, and explanatory memorandum and exhibits submitted by the Foundation for Taxpayer and Consumer Rights, prepared by its consulting actuary, and available for public review in the rulemaking file, no studies have been submitted for this proceeding. All commenters were given an opportunity to comment on all of the comments of the other commenters included in the rulemaking file.

#### SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

Adoption of the proposed rates would not mandate the use of specific technologies or equipment or prescribe specific actions or procedures.

#### REASONABLE ALTERNATIVES

As set forth in the Decision and Order and elsewhere in this rulemaking file, the Commissioner has determined that no reasonable alternative exists which would be as effective to carry out the statutory mandate and be less burdensome to affected private persons than the proposed regulations.

#### MANDATES

The regulations do not impose a mandate on local agencies or school districts.

#### ECONOMIC IMPACT ON BUSINESS

The Commissioner has determined that the proposed regulations will not have a significant adverse economic impact on businesses because the rates apply to private passenger automobile policies.

#### FORM 399

The Commissioner has determined that the proposed regulations do not have a fiscal impact to state agencies, local agencies and school districts or federal funding. Therefore, the Fiscal Impact Statement (Form 399), previously signed March 16, 2005, is still accurate.